

Message Text

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ORIGIN TRSE-00

INFO OCT-01 EUR-25 IO-14 ISO-00 EB-11 COME-00 STR-08 SSO-00

NSCE-00 USIE-00 CIAE-00 INR-10 NSAE-00 RSC-01 AGR-20

CEA-02 DODE-00 FRB-02 H-03 INT-08 L-03 LAB-06 NSC-07

PA-04 AID-20 CIEP-02 SS-20 TAR-02 PRS-01 SP-03 FEA-02

OMB-01 SWF-02 AF-10 ARA-16 EA-11 NEA-10 OIC-04 INRE-00

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E.O. 11652: N/A

TAGS: ETRD, GATT

SUBJECT: MANAGEMENT OF GATT AND GATT IMF RELATIONS

REF: GENEVA 2587

1. SUBJECT TO SPECIFIC GUIDANCE PARAS 2-4 BELOW, U.S.
POSTURE AT GATT DG'S MAY 2 MEETING SHOULD BE POSITIVE ON
MOVING TOWARD A GATT STEERING GROUP BUT INDICATE THAT
JUSTIFICATION FOR SUCH GROUP INVOLVES GOOD DEAL MORE THAN
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NEED TO CONSIDER TRADE MEASURES FOR B/P PURPOSES.

IT LIKELY TO TAKE SOME TIME BEFORE EC AND OTHER DELS ABLE TO AGREE TO CONCEPT OF STEERING GROUP. CONSEQUENTLY, WE AGREE THAT MISSION SHOULD SUGGEST DIRECTOR GENERAL ARRANGE SIMILAR RESTRICTED MEETING TO DISCUSS STEERING GROUP QUESTION FURTHER WHEN SENIOR OFFICIALS EXPECTED BE IN GENEVA FOR ANTICIPATED TNC MEETING DURING FIRST WEEK OF JUNE.

2. REGARDING LONG AND PATTERSON'S CONCERN OVER POSSIBLE EFFECTS ON GATT OF PROPOSED AMENDMENT TO THE FUND'S ARTICLES ON TRADE MEASURES FOR BALANCE OF PAYMENTS PURPOSES, THIS APPEARS ARISE IN PART FROM MISUNDERSTANDING OF INTENT OF THAT PROPOSAL:

A. WE DO NOT SEE OUR C-20 PROPOSAL AS CHALLENGE TO GATT'S ROLE IN CONSIDERING APPROPRIATENESS OF SPECIFIC TRADE MEASURES TAKEN FOR B/P REASONS. AS PROPOSED BY US IN C-20, AMENDMENT TO FUND'S ARTICLES REQUIRING PRIOR IMF APPROVAL OF TRADE OR OTHER CURRENT ACCOUNT MEASURES FOR BALANCE OF PAYMENTS PURPOSES WOULD SUPPLEMENT AND REINFORCE RELEVANT GATT PROVISIONS AND WOULD IN NO WAY RELIEVE A COUNTRY OF ITS OBLIGATIONS UNDER GATT OR OTHER INTERNATIONAL AGREEMENTS. AS INDICATED IN OUR SUBMISSION TO C-20, PROPOSED AMENDMENT SIMPLY EXTENDS TO ALL TYPES OF TRADE AND OTHER CURRENT ACCOUNT MEASURES PRESENT REQUIREMENTS IN IMF ARTICLES FOR PRIOR APPROVAL OF RESTRAINTS ON PAYMENTS FOR CURRENT ACCOUNT TRANSACTIONS. IT CONSTITUTES RECOGNITION THAT DISTINCTION BETWEEN RESTRAINTS ON PAYMENTS FOR B/P PURPOSES AND OTHER MEASURES TAKEN FOR B/P PURPOSES HAS NOT PROVED HELPFUL IN PRACTICE. NET EFFECT IS TO PROVIDE ADDITIONAL DETERRENT TO USE OF TRADE MEASURES FOR B/P PURPOSES.

B. WE APPRECIATE THAT ADOPTION OF PROPOSED IMF AMENDMENT COULD SUGGEST NEED FOR SOME CHANGES IN CURRENT IMF/GATT RELATIONSHIP AND PERHAPS IN CERTAIN OF RELEVANT GATT PROVISIONS. IN OUR VIEW SOME MECHANISM FOR CONTINUING COORDINATION WILL BE ESSENTIAL FEATURE OF ANY GATT/IMF RELATIONSHIP. IN THIS REGARD WE BELIEVE CONSIDERATION OF COMMERCIAL ASPECTS OF TRADE MEASURES LIMITED OFFICIAL USE

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JUSTIFIED FOR BALANCE OF PAYMENTS PURPOSES--INCLUDING CONSISTENCY WITH GATT OBLIGATIONS--SHOULD RESIDE INSTITUTIONALLY IN GATT.

3. OUR INITIAL VIEWS ON TWO MAIN QUESTIONS RAISED BY DIRECTOR GENERAL FOR DISCUSSION ARE AS FOLLOWS:

A. YES, WE DO THINK THERE IS A NEED TO CONSIDER

SOME KIND OF "STEERING GROUP" WITHIN GATT BUT THAT EVENTUAL ROLE OF ANY SUCH GROUP SHOULD BE MUCH BROADER THAN BOP QUESTIONS RAISED BY PATTERSON. ADMINISTRATION OF GATT HAS BECOME UNWIELDY IN MANY AREAS: CP MEETINGS ARE TOO LARGE AND TOO INFREQUENT; COUNCIL, WHICH WAS DESIGNED TO REMEDY THIS PROBLEM, IS ALSO LARGE AND BURDENED WITH LONG AGENDAS, WHICH CONTAIN MANY RELATIVELY MINOR TOPICS. WHILE SUBSTANTIVE QUESTIONS ALONG THE LINES OF THOSE RAISED BY PATTERSON WILL HAVE TO BE CONSIDERED IN DUE COURSE, AND WE AGREE SUCH CONSIDERATION SHOULD NOT BE LIMITED TO THE C-20, THIS IS NOT ONLY, OR EVEN PRINCIPAL, RATIONALE IN LONG RUN FOR MOVING TOWARD CREATION OF GATT STEERING GROUP.

B. ULTIMATELY, WE PREFER ARRIVING AT FORMAL GATT COUNTERPART OF C-20 COMPOSED OF SENIOR POLITICAL LEVEL OFFICIALS FROM CAPITALS AND WITH BROAD TERMS OF REFERENCE SO THAT TRADE PROBLEMS CAN BE DEALT WITH AT SAME POLITICAL LEVEL AS FINANCIAL QUESTIONS. HOWEVER, AGREEMENT ON SUCH A FORMAL STRUCTURE WILL BE DIFFICULT AND WILL TAKE TIME. THEREFORE, WE WOULD BE WILLING TO PROCEED ON BASIS OF EVOLUTIONARY APPROACH CONTINUING WITH INFORMAL STEERING GROUP ALONG LINES OF "SEVEN PLUS SEVEN" WHICH, AFTER EXPERIENCE IN DEALING WITH ISSUES, COULD DEVELOP INTO MORE FORMALIZED STRUCTURE. QUESTIONS OF CONCERN TO GATT MEMBERS REGARDING IMF/GATT RELATIONSHIPS--WHICH ARE BOUND TO COME UP AS DISCUSSIONS OF THE PROPOSED FUND AMENDMENT EVOLVE--CAN BE ADEQUATELY CONSIDERED IN INFORMAL GROUP FOR THE TIME BEING.

4. AT MISSION'S DISCRETION IT MIGHT BE USEFUL TO INFORM LONG OF OUR VIEWS PRIOR TO THE MAY 2 MEETING. YOU MAY WANT TO REASSURE HIM THAT THE USG DOES NOT INTEND THAT LIMITED OFFICIAL USE

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ITS C-20 PROPOSAL WILL REDUCE THE GATT'S CONTINUING ROLE IN CONSIDERING SPECIFIC TRADE MEASURES TAKEN FOR BALANCE OF PAYMENT PURPOSES. ON THE CONTRARY, WE BELIEVE THAT PROPOSAL CAN STRENGTHEN BOTH GATT AND IMF. WE AGREE WITH PATTERSON THAT THERE SHOULD BE SUBSTANTIVE COLLABORATION BETWEEN IMF AND GATT, AND ARE OPEN TO SUGGESTIONS TOWARD THIS END. IDEA OF STEERING GROUP, HOWEVER, SHOULD BE PRESERVED AS DISTINCT FROM GATT/IMF ISSUE. IN THIS CONNECTION, YOU MIGHT ALSO SEEK LONG AND PATTERSON REACTION TO SUGGESTIONS THAT TIME HAS NOW COME FOR CREATION OF A SPECIAL TNC GROUP ("Z COMMITTEE") ON BROAD QUESTIONS LIKE "IMPROVING THE TRADING FRAMEWORK" AND OVERSEEING THE FIT OF SEPARATE PIECES IN MTN AS RAISED IN PRIVATE DISCUSSIONS AND STATEMENTS OF USG AND OTHERS AT FIRST TNC MEETING. RUSH

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